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NSC BRIEFING

15 July 1954

INDONESIA

- I. After nearly year in office (about average life-span for Indonesian governments) position of Ali cabinet appears fairly secure for time being.
 - A. Of two small parties that were reported ready withdraw support two weeks ago, one has had change of heart, other is still wavering.
 1. Even should both withdraw, the government, by relying on Communist supporters, might still survive.
 2. President Sukarno apparently determined to keep present line-up.
 - B. Recent reassignment of parliamentary seats gave National Party (PNI), which heads government, four more than major opposition party (Masjumi).
 - C. Although considerable deterioration in nation's export economy, this not yet important political issue.
 1. Main sufferers are Chinese and European trading interests who are politically powerless.
 2. Also, opposition parties are not eager to inherit economic mess.

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II. Ali's confidence probably a factor in timing of apparent decision to ship rubber to China.

A. Polish vessel loading rubber in Djakarta harbor since 1 July.

1. Although rubber marked for Western ports, covering documents indicate China destination.
2. First shipment reportedly 6000 tons.
3. Loading temporarily ceased after 250 tons on board, suggesting government decision not yet firm.

B. PNI, with strident support of Communists, has advocated rubber sales to China since UN embargo first imposed.

1. Indications in past Indonesians having trouble making deal with Peiping.
 - a. China's strategic requirements met by Ceylon rubber; any purchase from Indonesia believed primarily political--perhaps to strain US-Indo relations.

C. Indo government's view of world alignment may also be factor in decision.

1. Prime Minister Ali, noting Chou-Nehru talks, said "balance of power in world seems to be shifting to new positions."

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D. In talks with our ambassador, Ali did not admit shipment going forward.

1. But hoped Battle Act would not be invoked should few tons rubber go to China.
2. Noted that, in any case, US aid to Indo so small that would not be missed.

III. Indo world's largest natural rubber producer--comprises over one third of exports.

A. More than half Indonesia's rubber produced by "small-holders" rather than large plantations (estates").

1. Interests of small-holders are important political factor.

B. Such rubber not top quality and Indos claim hard to market.

C. But there is current demand for it on NY market.

1. Importers there note reduced availability such rubber; several Indo firms have defaulted on contracts.
 - a. Probably result Indonesia's complex exchange, export regulations.
 - b. But possible Indos holding it off market, accumulating for sale China.

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